Emadlangeni Municipality
Annual Financial Statements
for the year ended 30 June 2012

Nature of business and principal activities	Local Authority
Councillors	
Mayor	Cllr J.G. Zikhali
Councillors	Cllr B.M. Phengane
	Cllr M.A. Gama
	Cllr P. Collins
	Cllr S. Nkomonde
	Cllr T.V. Buthelezi
	Cllr V.C. Ndlovu
Grading of local authority	1
Accounting Officer	V.M. Kubeka
Chief Finance Officer (CFO)	G.P.N. Ntshangase
Registered office	34 Voor Street Utrecht 2980
Business address	34 Voor Street Utrecht 2980
Postal address	PO Box 11 Utrecht Kwa-zulu Natal 2980
Bankers	Standard Bank of South Africa Newcastle
Auditors	Auditor General

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are responsible for reporting on the fair presentation of the annual financial statements.

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2013 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the income from services, rates and grants for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the council has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 3.

The annual financial statements set out on pages 5 to 45, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2012 and were signed on its behalf by:

Accounting Officer

Approval of Annual Financial Statements

I am responsible for the preparation of these annual financial statements, which are set out on pages 10 to 44, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 26 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Municipal Manager:

August 31, 2012

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
Assets			
Current Assets			
Loans and receivables-from exchange transactions	6	-	53,731
Other receivables-from exchange transactions	9	55,106	204,658
VAT receivable-non exchange transactions	10	-	1,291,460
Consumer debtors-from exchange transactions	11	6,138,373	3,132,710
Financial assets - Investments	8	15,263,207	12,710,300
Cash and cash equivalents	12	5,687,705	1,833,735
		27,144,391	**19,226,594**
Non-Current Assets			
Investment property	3	46,860,409	48,138,068
Property, plant and equipment	4	40,416,511	49,116,659
Intangible assets	5	406,853	97,147
Loans and receivables-from exchange transactions	6	-	165,340
		87,683,773	**97,517,214**
Total Assets		**114,828,164**	**116,743,808**
Liabilities			
Current Liabilities			
Trade and other payables	16	967,321	776,055
VAT payable		5,226,746	-
Consumer deposits	17	145,278	141,673
Unspent conditional grants and receipts	13	11,209,992	10,542,578
Provisions	14	1,089,551	757,010
Short term portion of long term liabilities	15	38,278	36,358
		18,677,166	**12,253,674**
Non-Current Liabilities			
Provisions	14	6,364,979	5,992,628
Annuity loan	15	961,383	999,645
		7,326,362	**6,992,273**
Total Liabilities		**26,003,528**	**19,245,947**
Net Assets		**88,824,636**	**97,497,861**
Net Assets			
Net Assets			
Accumulated surplus		88,824,636	97,497,861

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Property rates	18	8,901,808	5,968,483
Service charges	19	10,998,254	9,592,446
Property rates - penalties imposed and collection charges		1,010,244	177,614
Rental of facilities and equipment		1,183,156	1,346,522
Fines		115,995	164,737
Licences and permits		740,449	755,978
Government grants and subsidies	20	22,906,167	15,557,419
Sundry income		332,511	461,201
Fees earned-Game park		67,862	89,170
Other income		101,891	566,339
Interest received - investment	26	658,052	512,845
Total Revenue		**47,016,389**	**35,192,754**
Expenditure			
Employee related costs	23	(14,292,017)	(12,579,968)
Remuneration of councillors	24	(1,471,692)	(1,183,036)
Depreciation and amortisation	28	(6,267,169)	(5,472,426)
Impairment of assets		(11,251,003)	-
Finance costs	29	(171,691)	(118,521)
Debt impairment	25	(5,306,044)	(1,046,885)
Repairs and maintenance		(878,991)	(1,250,844)
Bulk purchases	33	(9,268,294)	(6,143,247)
Grant expenses	32	(2,718,036)	(2,089,444)
Loss on disposal of assets	32	(10,363)	-
General expenses	22	(4,699,257)	(2,770,955)
Total Expenditure		**(56,334,557)**	**(32,655,326)**
(Deficit) surplus for the year		**(9,318,168)**	**2,537,428**

Statement of Changes in Net Assets

Figures in Rand		Accumulated (deficit) / surplus	Total
Opening balance as previously reported	**-**	**50,859,634**	**50,859,634**
Changes in net assets			
Surplus for the year	-	2,537,428	2,537,428
Fair Value adjustments- deemed cost	-	20,049,413	20,049,413
Landfill site-GRAP treatement	-	(1,609,973)	(1,609,973)
Derecognition of biological assets	-	(1,217,980)	(1,217,980)
Correction of previous mistatements-GRAP	-	26,879,339	26,879,339
Total changes	-	46,638,227	46,638,227
Balance at 01 July 2011 restated	**-**	**97,497,861**	**97,497,861**
Changes in net assets			
Surplus for the year	-	(9,318,168)	(9,318,168)
Correction of Abakus creditors	-	644,943	644,943
Total changes	-	(8,673,225)	(8,673,225)
Balance at 30 June 2012	**-**	**88,824,636**	**88,824,636**

Note(s)

Statement Of Cash Flows

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Sale of goods and services		20,314,102	16,821,078
Grants		23,573,573	18,841,617
Interest income		658,052	512,845
Other receipts		1,508,265	1,887,134
		46,053,992	38,062,674
Payments			
Employee costs		(15,549,812)	(13,560,195)
Suppliers		(13,892,557)	(14,481,000)
Finance costs		(171,691)	(114,819)
Grant expenditure		(2,352,574)	(2,089,444)
		(31,966,634)	(30,245,458)
Net cash flows from operating activities	34	**14,087,358**	**7,817,216**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(7,508,621)	(4,999,882)
Proceeds from sale of property, plant and equipment	4	1	-
Purchase of other intangible assets	5	(354,590)	(86,396)
Proceeds/(Purchase) from sale of financial assets		219,071	(21,906)
Purchase of financial assets - investments		(2,552,907)	(3,787,963)
Net cash flows from investing activities		**(10,197,046)**	**(8,896,147)**
Cash flows from financing activities			
Movement in annuity loan		(36,342)	(33,035)
Finance lease payments		-	(90,151)
Net cash flows from financing activities		**(36,342)**	**(123,186)**
Net increase/(decrease) in cash and cash equivalents		**3,853,970**	**(1,202,117)**
Cash and cash equivalents at the beginning of the year		1,833,735	3,035,852
Cash and cash equivalents at the end of the year	12	**5,687,705**	**1,833,735**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board, in accordance with section 122(3) of the Municipal Finance Management Act (Act No 56 of 2003)

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.
The accounting policies applied are consistent with those used in the prior year, except where otherwise stated.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the Annual Financial Statements, management is required to make estimates and assumptions that affect the amounts represented in the Annual Financial Ftatements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the Annual Financial Statements. Significant judgements include:

Trade receivables and loans and receivables

The Municipality assesses its trade receivables and loans and receivables for impairment at each reporting date. In determining whether an impairment loss should be recorded in the statement of financial performance, the Municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits that are associated with the investment property will flow to the enterprise, and the cost of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Accounting Policies

1.2 Mergers (continued)

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation less any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property(other than land), which is as follows:

Item	**Useful life**
Property - land	indefinite
Property - buildings	30 years

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired by the municipality at no cost, or for a nominal cost(i.e. a non exchange transaction), its cost is its fair value as at date of acquisition.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is subsequently carried at cost less accumulated depreciation and any impairment losses.

Work in progress

1.3 Property, plant and equipment (continued)

Work in progress is stated at historical cost. Depreciation only commences when the asset is ready for use.

Biological assets are measured at fair value adjustments are made through the statement of financial performance

The useful lives of items of property, plant and equipment have been assessed as follows

Item	Average useful life
Building	30 years
Plant & equipment	2 - 10 years
Furniture and fixtures	5 - 7 years
Motor vehicles	5 years
Office Equipment	3 - 5 years
Infrastructure assets	10 - 20 years
Community assets	3 - 30 years
Finance leased assets	5 years

The residual value, the useful life and depreciation method of each asset are reviewed at each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of Intangible assets is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the statement of financial position.

1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.5 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

1.6 Intangible assets

An asset is identified as an intangible asset when it:
- is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits that are attributable to the asset will flow to the municipality; and
- the cost of the asset can be measured reliably

Intangible assets are initially measured at cost.Where an intangible asset is acquired by the municipality for no or nominal amount(i.e. a non-exchange transaction) the cost is deemed to be equal to the fair value of the asset on the date acquired. Where an intangible is acquired is in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset is initially measured at fair value(the cost). If the aquired item's fair value was not determinable, its deemed cost is the carrying amount of the assets(s) given up.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

1.6 Intangible assets (continued)

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these Intangible assets. For all other intangible assets amortisation is provided on a straight line basis over their useful lives.

The amortisation period, the amortisation method and the useful lives of intangible assets are reviewed every reporting date.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	**Useful life**
Computer software	3 years
Computer software-Operating system	5 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.7 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:
- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available for sale financial assets.

Transaction costs are included in the initial measurement of the instrument.

Subsequent measurement

Loans and receivables and consumer debtors are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Impairment of financial assets

At the end of each reporting period the municipality assesses all financial assets to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

1.7 Financial instruments (continued)

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Loans to employees

These financial assets are classified as loans and receivables.

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents and other financial assets

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash and cash equivalents are initially recorded at fair value and subsequently recorded at amortised cost as a loan receivable.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Derecognition

Financial assets

1.7 Financial instruments (continued)

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

Impairment of financial assets

The municipality assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Operating leases - lessor

Operating lease income is recognised as an income on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

Income for leases is disclosed under revenue in the statement of financial performance.

Operating leases – lessee

1.8 Leases (continued)

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Any contingent rents are expensed in the period they are incurred.

1.9 Inventories

Inventories are initially measured at cost except where Municipality are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently Municipality are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of Municipality comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the Municipality to their present location and condition.

The cost of Municipality items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of Municipality is assigned using the weighted average cost formula. The same cost formula is used for all Municipality having a similar nature and use to the municipality.

When Municipality is sold, the carrying amounts of those Municipality are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of Municipality to net realisable value or current replacement cost and all losses of Municipality is recognised as an expense in surplus or deficit in the period the write-down or loss occurs. The amount of any reversal of any write-down of Municipality, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of Municipality recognised as an expense in the period in which the reversal occurs in surplus or deficit.

1.10 Impairment of assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

1.10 Impairment of assets (continued)

Recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

1.11 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

1.12 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and is not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

Retirement benefits

The municipality provides retirement benefits for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are charged against surplus or deficit in the year they become payable. The defined benefit funds, which are administered on a provincial basis, are treated as defined contribution plans by the municipality. Specific actuarial information in respect of individual participating municipalities is unavailable due to centralised administration of these funds.

Accounting Policies

1.13 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Commitments and contingencies are disclosed in note 37.

1.14 Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered/goods sold, the value of which approximates the consideration received or receivable.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Contract revenue comprises:

- the initial amount of revenue agreed in the contract; and
- variations in contract work, claims and incentive payments
    - to the extent that it is probable that they will result in revenue; and
    - they are capable of being reliably measured.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

1.14 Revenue from exchange transactions (continued)

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality’s right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.15 Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where the muunicipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Government grants and donations

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

Donations are measured at the fair value of the consideration received or receivable when the amount of the revenue can be measured reliably.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

Other grants and donations

Other grants and donations are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

1.16 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

Accounting Policies

1.17 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

1.18 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.19 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote;
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Accounting Policies

1.21 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.22 Use of estimates

The preparation of Annual Financial Statements in conformity with the Standards of Generally Recognised Accounting Practice(GRAP) requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Annual Financial Statements are disclosed in the relevant sections of the Annual Financial Statements. Although these estimates are based on management’s best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.23 Presentation currency

These Annual Financial Statements are presented in South African Rand, and are rounded to the nearest Rand.

1.24 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP, and there is an intention to settle on a net basis.

1.25 Gratuities

The municipality provides gratuities for qualifying staff members in terms of the relevant conditions of employment. The expenditure is recognised in the statement of financial performance when the gratuity is paid.

1.26 Going concern assumption

The Annual Financial Statement have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after

2. New standards and interpretations (continued)

• IGRAP 2: Changes in Existing Decommissioning, Restoration and Similar Liabilities	01 April 2011
• IGRAP 3: Determining Whether an Arrangement Contains a Lease	01 April 2011
• IGRAP 4: Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	01 April 2011
• IGRAP 5: Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies	01 April 2011
• IGRAP 6: Loyalty Programmes	01 April 2011
• IGRAP 8: Agreements for the Construction of Assets from Exchange Transactions	01 April 2011
• IGRAP 9: Distributions of Non-cash Assets to Owners	01 April 2011
• IGRAP 10: Assets Received from Customers	01 April 2011
• IGRAP 13: Operating Leases – Incentives	01 April 2011
• IGRAP 14: Evaluating the Substance of Transactions Involving the Legal Form of a Lease	01 April 2011
• IGRAP 15: Revenue – Barter Transactions Involving Advertising Services	01 April 2011
• GRAP 1 (as revised 2010): Presentation of Financial Statements	01 April 2011
• GRAP 2 (as revised 2010): Cash Flow Statements	01 April 2011
• GRAP 3 (as revised 2010): Accounting policies, Changes in Accounting Estimates and Errors	01 April 2011
• GRAP 4 (as revised 2010): The Effects of Changes in Foreign Exchange Rates	01 April 2011
• GRAP 9 (as revised 2010): Revenue from Exchange Transactions	01 April 2011
• GRAP 10 (as revised 2010): Financial Reporting in Hyperinflationary Economies	01 April 2011
• GRAP 11 (as revised 2010): Construction Contracts	01 April 2011
• GRAP 12 (as revised 2010): Inventories	01 April 2011
• GRAP 13 (as revised 2010): Leases	01 April 2011
• GRAP 14 (as revised 2010): Events After the Reporting Date	01 April 2011
• GRAP 16 (as revised 2010): Investment Property	01 April 2011
• GRAP 17 (as revised 2010): Property, Plant and Equipment	01 April 2011
• GRAP 19 (as revised 2010): Provisions, Contingent Liabilities and Contingent Assets	01 April 2011
• GRAP 100 (as revised 2010): Non-current Assets Held for Sale and Discontinued Operations	01 April 2011
• GRAP 105: Transfers of functions between entities under common control	01 April 2011

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2012 or later periods:

GRAP 18 Segment reporting
GRAP 20 Related party disclosure
GRAP 25 Employee benefits
GRAP 105 Transfer of functions between entities under common control

Standard/ Interpretation:	**Effective date: Years beginning on or after**
• GRAP 18: Segment Reporting	01 April 2013
• GRAP 23: Revenue from Non-exchange Transactions	01 April 2012
• GRAP 24: Presentation of Budget Information in the Financial Statements	01 April 2012

2. New standards and interpretations (continued)

• GRAP 103: Heritage Assets	01 April 2012
• GRAP 21: Impairment of non-cash-generating assets	01 April 2012
• GRAP 26: Impairment of cash-generating assets	01 April 2012
• GRAP 25: Employee benefits	01 April 2013
• GRAP 104: Financial Instruments	01 April 2012
• IGRAP 7: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	01 April 2013
• GRAP 106: Transfers of functions between entities not under common control	01 April 2014
• GRAP 107: Mergers	01 April 2014
• GRAP 20: Related parties	01 April 2013

3. Investment property

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment Property	51,744,783	(4,884,374)	46,860,409	51,744,783	(3,606,715)	48,138,068

Reconciliation of investment property - 2012

	Opening balance	Depreciation	Total
Investment Property	48,138,068	(1,277,659)	46,860,409

Reconciliation of investment property - 2011

	Opening balance	Depreciation	Total
Investment Property	49,413,012	(1,274,944)	48,138,068

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land & Buildings	23,081,413	(5,281,493)	17,799,920	21,811,154	(4,054,006)	17,757,148
Plant and machinery	1,106,142	(836,191)	269,951	943,514	(373,667)	569,847
Furniture and fixtures	1,452,344	(1,344,560)	107,784	1,387,066	(509,585)	877,481
Motor vehicles	3,742,230	(2,259,146)	1,483,084	2,997,203	(1,217,920)	1,779,283
Office equipment	903,088	(613,799)	289,289	771,285	(276,015)	495,270
Infrastructure	33,790,360	(20,287,417)	13,502,943	31,594,856	(8,283,146)	23,311,710
Community	5,602,415	(1,596,208)	4,006,207	4,663,160	(1,322,455)	3,340,705
Capital work in progress	2,896,795	-	2,896,795	924,677	-	924,677
Heritage	60,538	-	60,538	60,538	-	60,538
Total	**72,635,325**	**(32,218,814)**	**40,416,511**	**65,153,453**	**(16,036,794)**	**49,116,659**

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land & Buildings	17,757,148	729,112	-	541,147	(862,869)	(364,618)	17,799,920
Plant and machinery	569,847	162,628	-	-	(120,950)	(341,574)	269,951
Furniture and fixtures	877,481	67,698	(1,599)	-	(249,411)	(586,385)	107,784
Motor vehicles	1,779,283	745,029	-	-	(473,107)	(568,121)	1,483,084
Office equipment	495,270	156,128	(8,765)	-	(197,985)	(155,359)	289,289
Infrastructure	23,311,710	2,195,505	-	-	(2,861,706)	(9,142,566)	13,502,943
Community	3,340,705	939,256	-	-	(181,375)	(92,379)	4,006,207
Capital work in progress	924,677	2,513,265	-	(541,147)	-	-	2,896,795
Heritage	60,538	-	-	-	-	-	60,538
	49,116,659	**7,508,621**	**(10,364)**	**-**	**(4,947,403)**	**(11,251,002)**	**40,416,511**

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Depreciation	Total
Land & Buildings	18,282,644	332,630	(858,126)	17,757,148
Plant and machinery	682,313	4,857	(117,323)	569,847
Furniture and fixtures	1,105,719	14,543	(242,781)	877,481
Motor vehicles	907,772	1,150,162	(278,651)	1,779,283
Office equipment	581,408	51,034	(137,172)	495,270
Infrastructure	24,260,639	1,774,237	(2,723,166)	23,311,710
Community	2,751,511	747,742	(158,548)	3,340,705
Capital work in progress	-	924,677	-	924,677
Heritage	60,538	-	-	60,538
	48,632,544	**4,999,882**	**(4,515,767)**	**49,116,659**

Reconciliation of Work-in-Progress 2012

	Included within Other PPE	Total
Opening balance	924,677	924,677
Additions/capital expenditure	2,513,265	2,513,265
Transferred to completed items	(541,147)	(541,147)
	2,896,795	**2,896,795**

Reconciliation of Work-in-Progress 2011

	Included within Other PPE	Total
Additions/capital expenditure	924,677	924,677

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

5. Intangible assets

	2012			2011		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	803,342	(396,489)	406,853	451,528	(354,381)	97,147

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Amortisation	Total
Computer software	97,147	354,590	(44,884)	406,853

Reconciliation of intangible assets - 2011

	Opening balance	Additions	Amortisation	Total
Computer software	101,031	86,396	(90,280)	97,147

6. Loans and receivables-from exchange transactions

	2012	2011
Housing debtors The Department of Housing provided Emadlangeni Municipality with a loan to finance housing selling scheme undertaken by the municipality, the loan was extinguished on 1 April 1998 and transferred to the Housing Development Fund in terms of the Housing Act No 107 of 1997. The initial contract states that residents who benefited from the housing scheme will pay a deposit of R300.00, the capital must be paid back to Emadlangeni Municipality within 360 months together with interest of 13.5 % per annum. The monthly payments will be determined as 11% of the buyer's monthly salary.The buyer has an option to purchase the house after 3 years or once 10% of the capital amount has been paid and the buyer provides surety to the balance of the capital amount.	204,972	219,071
	204,972	219,071
Loans and receivables (provision for write down)	(204,972)	-
	-	**219,071**
Total other financial assets	**-**	**219,071**
Non-current assets		
Loans and receivables	-	165,340
Current assets		
Loans and receivables	-	53,731
	-	**219,071**

The municipality has determined that the carrying value of financial assets approximates fair value. The municipality has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

Figures in Rand	2012	2011

7. Employee benefit obligations

All municipal councillors and employees belong to The Natal Joint Municipal Pension Fund (Superannuation) and The Natal Joint Municipal Pension Fund (Retirement) which are administered by the Province.

These schemes cannot be broken down per municipality, as they are considered to be multi-employer schemes and hence are treated as defined contribution schemes by the municipality.

Municipal employees are also members of the KwaZulu-Natal Joint Municipal Provident Fund. All contributions have been included in the employee related cost note (refer note 25).

8. Financial assets - Investments

	2012	2011
Financial assets - Investments		
Current portion		
Standard Bank of South Africa		
MSIG 1 call account	10	10
Repair of 376 houses grant call account	4,865,527	4,662,884
FMG 2 call account	52	40,210
Spatial planning grant call account	26	25,224
MSIG 2 call account	300	154,617
PMS call account	-	11
MAP 2 call account	44,104	43,229
LED call account	-	2
MFMS call account	986	982
MIG call account	6,526,946	2,438,211
MSIG 3 call account	761	392,499
MAP 1 call account	153,531	148,987
Fixed deposit 2	1,091,575	1,039,342
Small town rehabilitation grant	378,944	2,494,358
FMG 1 Grant	563,076	372,915
MSIG 4 Grant	776,366	502,438
Housing Operating Account	492,718	394,381
Library Grant	218,107	-
Sports Grant	150,178	-
	15,263,207	**12,710,300**

The above are invested in call and short term deposit bank accounts. The interest earned on investments varies between 1.5% and 10.9% per annum.

9. Other receivables-from exchange transactions

	2012	2011
Sundry debtors	55,106	204,658

10. VAT receivable

	2012	2011
VAT refundable	-	1,291,460

11. Consumer debtors

	2012	2011
Gross balances		
Rates	10,711,137	4,710,820
Electricity	2,861,862	1,245,920
Refuse	1,647,471	1,345,361
Sundry debtors	1,154,150	1,232,296
	16,374,620	**8,534,397**

Less: Debt impairment

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
11. Consumer debtors (continued)		
Rates	(5,621,779)	(2,766,162)
Electricity	(2,675,130)	(314,385)
Refuse	(1,185,754)	(1,088,374)
Sundry debtors	(753,584)	(1,232,766)
	(10,236,247)	**(5,401,687)**

Net balance		
Rates	5,089,358	1,944,658
Electricity	186,732	931,535
Refuse	461,717	256,987
Sundry debtors	400,566	(470)
	6,138,373	**3,132,710**

Rates		
Current (0 -30 days)	1,960,627	1,339,168
31 - 60 days	245,154	261,482
61 - 90 days	700,955	105,475
91 - 120 days	115,443	238,533
121 - 365 days	489,478	-
> 365 days	1,577,701	-
	5,089,358	**1,944,658**

Electricity		
Current (0 -30 days)	186,732	431,871
31 - 60 days	-	190,707
61 - 90 days	-	150,219
91 - 120 days	-	158,738
	186,732	**931,535**

Refuse		
Current (0 -30 days)	130,954	94,994
31 - 60 days	89,032	60,598
61 - 90 days	37,941	54,231
91 - 120 days	32,731	47,164
121 - 365 days	171,059	-
	461,717	**256,987**

Sundry debtors		
Current (0 -30 days)	293,947	32,030
31 - 60 days	106,619	15,366
61 - 90 days	-	15,158
91 - 120 days	-	(63,024)
	400,566	**(470)**

Reconciliation of debt impairment-allowance account		
Balance at beginning of the year	(5,401,687)	(4,392,617)
Contributions to provision	(5,101,073)	(1,046,885)
Debt impairment written off against provision	266,513	37,815
	(10,236,247)	**(5,401,687)**

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

11. Consumer debtors (continued)

Consumer debtors impaired

As of 30 June 2012, consumer debtors of R10,017,177 (2011: R5,401,687) were impaired and provided for.

The amount of the provision was R10,017,117 as of 30 June 2012 (2011: R5,401,687).

The ageing of these loans is as follows:

Over 3 Months	10,017,117	5,401,687

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	583	781
Bank balances	5,687,122	1,832,954
	5,687,705	**1,833,735**

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
Standard Bank of South Africa - Newcastle branch - Public sector current account - Account number 06 010 0001	8,361,100	2,396,023	5,687,706	1,832,954

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Repair of 376 houses	4,210,673	4,210,673
MIG Grant	5,795,837	2,350,229
MSIG Grant	367,756	1,057,339
MAP Grant	174,160	174,160
MFMS Grant	167,694	167,694
FMG Grant	-	37,475
Spatial Planning Grant	-	22,347
PMS Grant	16,113	16,113
MSIG 04/05 Grant	11,405	11,405
LED Grant	1,840	1,840
Small Town Rehabilitation Grant	187,003	2,493,303
Library Grant	158,761	-
Sports Grant	118,750	-
	11,209,992	**10,542,578**

Repair of 376 houses		
Balance unspent at the beginning of the year	4,210,673	4,210,673

MIG Grant		
Balance unspent at the beginning of the year	2,350,229	1,679,421
Current year receipts	8,624,000	4,670,000
Conditions met - transferred to revenue	(5,178,392)	(3,999,192)
Conditions still to be met - remain liabilities	**5,795,837**	**2,350,229**

MSIG Grant

Figures in Rand	2012	2011
13. Unspent conditional grants and receipts (continued)		
Balance unspent at the beginning of the year	1,057,339	530,778
Current year receipts	790,000	750,000
Conditions met - transferred to revenue	(1,490,682)	(223,440)
Conditions still to be met - remain liabilities	**356,657**	**1,057,338**
MAP Grant		
Balance unspent at the beginning of the year	174,160	500,532
Conditions met - transferred to revenue	-	(326,372)
Conditions still to be met - remain liabilities	**174,160**	**174,160**

Repair of 376 houses
The main objective of this grant is for the repair and refurbishment of the 376 houses that were damaged due to bad weather in the region.

MIG Grant
This grant will be used to address backlogs in municipal infrastructure required for the provisions of basic services. The unspent portion will be used to complete the same projects.

MSIG Grant
This grant is used for infrastructure and for capacity building and restructuring. The capacity building and restructuring grants were set up to assist the municipality in developing their planning, budgeting, financial management and technical skills.

MAP Grant
The management assistant programme is the funding from the KZN Department of Cooperative Governance and Traditional Affairs for the management to assist the municipality to provide better services to the community.

Project Consolidate Grant
The main objective of this grant is to assist the municipality in the alignment of the Integrated Development Plan and Service Delivery Budget Implementation Plan.

MFMS Grant
The main objective of this grant is to assist in the rollout of financial management reforms embodied in the MFMA through building capacity in financial management. The unspent portion will be used to complete the same projects

FMG Grant
The main objective of this grant is to assist in the rollout of financial management reforms embodied in the MFMA through building capacity in financial management. The unspent portion will be used to complete the same projects.

Spatial Planning Grant
The objective of this grant is to assist the municipality in influencing the distribution of people and activities in various space scales including land use planning and urban planning.

PMS Grant
The main objective of this grant is to assist the municipality in establishing an automated PMS system and improving the performance management of the municipality.

LED Grant
This grant is used for local economic development and to achieve economic sustainability. The unspent portion will be used to complete similar projects.

Small Town Rehabilitation Grant
The primary objective of the grant is to improve and rehabilitate the municipality's town

Library Grant
The chief objective is to begin addressing the constitutional mandate whereby public libraries are an exclusive provincial competency.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

13. Unspent conditional grants and receipts (continued)

Sports Grant
The purpose of the grant is maintenance of sports facilities

14. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	5,992,628	372,351	-	6,364,979
Leave pay provision	757,010	447,981	(115,440)	1,089,551
	6,749,638	**820,332**	**(115,440)**	**7,454,530**

Reconciliation of provisions - 2011

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	5,778,541	214,087	-	5,992,628
Leave pay provision	554,201	574,464	(371,655)	757,010
Provision for landfill sites	-	-	-	-
	6,332,742	**788,551**	**(371,655)**	**6,749,638**

	2012	2011
Non-current liabilities	6,364,979	5,992,628
Current liabilities	1,089,551	757,010
	7,454,530	**6,749,638**

Environmental rehabilitation
This provision is raised for the rehabilitation of the waste disposal site to it original state once the site has reached the end of its useful life.

Leave pay
The leave day provision is accrued at the Basic Conditions of Employment Act rate and is accumulated to a maximum of 48 days per employee.

15. Annuity loan

The Municipality has received a loan from Development Bank of Southern Africa (DBSA) to fund the renovation of the municipal building. The term of the loan is 20 years. Interest charged varies between 10.81 % and 14.40% per annum, payable every 6 months.The interest rate is prime linked.

Annuity Loan	2012	2011
DBSA loan	999,661	1,036,002
Less: current portion transferred to current liabilities	(38,278)	(36,358)
	961,383	**999,644**

16. Trade and other payables

	2012	2011
Trade payables	407,931	644,943
Sundry creditors	233,551	(57,246)
Other deposits	41,178	21,664
Retention liability	284,661	166,694
	967,321	**776,055**

The fair value of trade and other payables approximates their carrying amounts.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

17. Consumer deposits

Electricity	145,278	141,673

Interest is not paid to consumers when deposits are refunded.

18. Property Rates

Rates received

Property rates	8,901,808	5,968,483
	8,901,808	5,968,483
Property rates - penalties imposed and collection charges	1,010,244	177,614
	9,912,052	**6,146,097**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 January 2009. The following general rates are applied to property valuations to determine assessment rates:

Vacant land other than residential	R 0.0781
Schools	R 0.0385
Vacant land zoned residential	R 0.06127
Public service infrastructure	R 0.000549
Agricultural used for agricultural purposes	R 0.000549
Agricultural used for other purposes	R 0.008498
Business and commercial property	R 0.02673
State owned property	R 0.03839
Industrial property	R 0.02673
Smallholding for agricultural/residential purpose	R 0.00275
Smallholding for business/commercial/industrial	R 0.008498
Residential properties	R 0.009922

The following rebates are applied:
100% of market value for public and residential worship, land reform properties
50% of market value less exemption for phasing in discount
30% of market value less exemption for public service infrastructure
20% of market value less exemption for residential properties
10% of market value less exemption for residential and commercial properties
10% of market value less exemption for industrial properties

Rates are levied on a monthly basis. Rates are levied on the following properties as per the valuation roll.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

18. Property Rates (continued)

Property valuations		
Agricultural properties used for agricultural purposes	775,579,000	775,579,000
Agricultural properties used for other business and commercial purposes	14,695,000	14,695,000
Smallholding used for agricultural/residential purposes	507,000	507,000
Smallholdings used for business/commercial/industrial purposes	1,400,000	1,400,000
Business and Commercial properties(with residential usage)	4,137,000	4,137,000
Business and Commercial properties	18,978,000	18,978,000
Industrial properties	2,535,000	2,535,000
Land reform properties	102,069,000	102,069,000
Municipal properties	36,602,000	36,602,000
Public Benefit Organisation	2,127,000	2,127,000
Public Service Infrastructure	23,651,000	23,651,000
Residential Properties	232,413,000	232,413,000
Schools (Private and State)	25,790,000	25,790,000
State owned properties	130,110,000	130,110,000
Vacant land(other than residential)	1,433,000	1,433,000
Vacant land zoned residential	13,878,000	13,878,000
Public Worship	4,211,000	4,211,000
Worship Residential	1,196,000	1,196,000
	1,391,311,000	**1,391,311,000**

19. Service charges

Sale of electricity	9,805,401	8,501,924
Refuse removal	1,192,853	1,090,522
	10,998,254	**9,592,446**

20. Government grants and subsidies

Equitable share	12,256,000	9,621,617
MIG Grant	5,178,392	3,999,192
FMG Grant	1,537,475	1,290,419
MAP Grant	-	326,372
MSIG Grant	1,479,582	223,440
Small Town Rehab	2,306,309	56,697
SPG Grant	22,347	39,682
Library grant	126,062	-
	22,906,167	**15,557,419**

21. Other income

Fees earned	67,862	89,170
Other receipts	101,891	-
	169,753	**89,170**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

22. General expenses

Advertising	197,522	166,255
Auditors remuneration	820,335	760,206
Bank charges	98,699	116,477
Commission paid	47,802	84,621
Consulting and professional fees	203,048	53,186
Consumables	55,788	41,528
Entertainment	61,037	12,976
Insurance	164,150	172,556
Promotions and sponsorships	-	410
Motor vehicle expenses	50,705	42,050
Fuel and oil	317,579	232,937
Postage and courier	34,609	18,712
Printing and stationery	18,452	13,404
Royalties and license fees	174	19,505
Security (guarding of municipal property)	34,925	5,369
Software expenses	247,787	8,410
Subscriptions and membership fees	228,423	37,837
Telephone and fax	498,797	324,233
Training	22,152	-
Travel - local	513,891	342,482
Refuse	8,395	7,356
Water	158,136	68,167
Other	536,450	438,539
Expense 8	372,351	(198,913)
Chemicals	8,050	2,652
	4,699,257	**2,770,955**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

23. Employee related costs

Basic	11,111,687	9,172,061
Medical aid - company contributions	472,335	383,887
UIF	104,543	84,886
SDL	58,244	67,572
Other payroll levies	-	9,450
Increase in leave pay provision	463,165	574,464
Post-employment benefits	704,836	616,508
Travel, motor car, accommodation, subsistence and other allowances	143,806	511,239
Overtime payments	348,749	287,024
13th Cheques	587,570	501,031
Acting allowances	141,692	44,797
Housing benefits and allowances	-	196,357
Other allowances	155,390	130,692
	14,292,017	**12,579,968**

Employee related costs exclude the salary costs of finance interns which are financed by the FMG Grant. Refer note 34 for grant expenses.

Remuneration of Municipal Manager

Annual remuneration	869,675	759,291
	869,675	**759,291**

Remuneration of Chief Financial Officer

Annual remuneration	599,233	509,408
	599,233	**509,408**

Remuneration of Director Corporate Services

Annual remuneration	592,955	508,572
	592,955	**508,572**

Remuneration of Director Technical Services

Annual remuneration	232,317	393,050
	232,317	**393,050**

Remuneration of Director Community Services

Annual remuneration	570,986	-

Figures in Rand	2012	2011

24. Remuneration of councillors

Mayor	308,865	207,631
Councillors	1,274,300	958,610
Councillors’ pension and medical aid contributions	17,608	16,795
	1,600,773	**1,183,036**

25. Debt impairment

Increase in debt impairment provision(refer to note 12)	5,306,044	1,046,885

26. Investment revenue

Interest revenue		
Investments	658,052	512,845

27. Fair value adjustments

28. Depreciation and amortisation

Property, plant and equipment	4,945,964	4,107,201
Investment property (Refer note 4)	1,277,659	1,274,945
Intangible assets (Refer note 6)	43,546	90,280
	6,267,169	**5,472,426**

29. Finance costs

Non-current borrowings	171,691	114,819
Finance leases	-	3,702
	171,691	**118,521**

30. Auditors' remuneration

Fees	820,335	760,206

31. Operating lease

Operating leases - lessor

The municipality has low cost houses and flats that are leased to the public and staff. Lease rentals are based on a percentage of the lessee's income levels or on a rate below market value. These leases are cancellable at any time by either party provided that one month's notice is given and there is no fixed lease period. The related properties are included in property, plant and equipment. Operating lease income received is R344,869 (2011: R327,445).Operating lease income is included in Rental of facilities and equipment

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

32. Grant expenses

Grant Expenditure		
Operational	2,718,036	2,089,444

Grant expenses comprise of the following:

Small Town Rehabilitation Grant		
Beautification of the town	71,599	56,697
MAP Grant		
Consulting and contract services	-	326,372
Spatial Planning Grant		
Maintenance of the valuation roll	21,930	39,682
Library Grant		
Provincialisation of libraries	66,143	-
FMG Grant		
Training, intern salaries and other financial management capacity building costs	1,196,569	1,175,655
MIG Grant		
Consulting and contracted services	285,572	275,143
MSIG Grant		
Costs relating to implementation and improvement to systems	679,511	215,896
Sports Grant		
Maintenance of sports facilities	31,250	-
Grant expenses		
Total	2,352,574	2,089,444

33. Bulk purchases

Electricity	9,268,294	6,143,247

Figures in Rand	2012	2011

34. Cash generated from operations

(Deficit) surplus	(9,318,168)	2,537,428
Adjustments for:		
Depreciation and amortisation	6,267,169	5,472,426
Gain on sale of assets and liabilities	10,363	-
Finance costs - Finance leases	-	3,702
Impairment deficit	11,251,003	-
Debt impairment	5,306,044	1,046,885
Movements in provisions	704,892	416,896
Other non-cash items	647,725	(508,714)
Changes in working capital:		
Other receivables-from exchange transactions	149,546	(150,291)
Consumer debtors	(8,311,707)	(550,640)
Trade and other payables	191,266	(4,021,327)
VAT	6,518,206	273,936
Unspent conditional grants and receipts	667,414	3,284,199
Consumer deposits	3,605	12,716
	14,087,358	**7,817,216**

35. Commitments and contingencies

Authorised capital expenditure

Approved and contracted for		
• PMU Business Plan	237,240	410,656
• Inkululekko Yomphakathi Residential Area	2,323,775	-
• Pedestrian Bridge Enchuba River	875,259	-
• Ezihlabatini Rural Road	2,458,069	2,550,000
• Hooggnoeg Road	3,910,550	460,608
	9,804,893	**3,421,264**

Approved but not yet contracted for		
• Pension point market stalls	1,070,000	-
• Enchuba pedestrian bridge	-	1,065,672
• Khayalethu/Northhill Gravel road	6,225,000	3,027,547
• Blue Mountain Creche	-	550,100
• Ndlamlenze Creche	-	550,100
• Kwa-Mabaso Creche	-	550,100
	7,295,000	**5,743,519**

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36. Contingencies

Litigation is in process against the municipality relating to a dispute with a contractor whose appointment was flawed . The municipality's lawyers and management consider the outcome of the action against the municipality being successful as uncertain. Should the action be successful the value of the obligation is R495 477.55, however, the value of the contract in dispute is R1 387 625.93

Should the action be successful the municipality does have insurance cover to cover litigation costs and claims. The total cover extended by the current policy amounts to -.

The municipality operates an unlicensed landfill site. The site should be licensed as required by National Environmental Mnagement Waste Act. Management is unceratin about the potential penalty should the Department of Environment penalise the municipality. However, the current estimated cost of rehabilitating the landfill site is R6 364 979.17

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

37. Related parties

Remuneration to key personnel of the municipality is disclosed in notes 24 and 25.

At the time of completion of the annual financial statements, there appears to be no related party relationship in existence at year end.

38. Prior period errors

Directive 4 dispensation available to low capacity municipalities allowed some assets and liabilities to be carried at provisional amounts. However, the full implementation of GRAP in the year under review resulted in corrections of these balances recognised at provisional amounts.

The correction of the error(s) results in adjustments as follows:

Statement of Financial Position

	2012	2011
Accumulated surplus		
As previously reported	-	58,266,608
Adjustment	-	39,231,253
	-	**97,497,861**
Investment Property		
As previously reported	-	1,784,708
Adjustment	-	46,353,360
	-	**48,138,068**
Property, plant and equipment		
As previously reported	-	54,024,836
Adjustment	-	(4,908,177)
	-	**49,116,659**
Biological assets		
As previously reported	-	2,534,300
Adjustment	-	(2,534,300)
	-	**-**
Provisions		
As previously reported	-	6,313,000
Adjustment	-	(320,372)
	-	**5,992,628**

39. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

40. Events after the reporting date

A settlement agreement was reached with the Municipal Manager after the reporting date.A gross amount of R548 97.18 less leave paid will be payable to Municipal Manager subject to a tax directive from SARS.

41. Unauthorised expenditure

At the time of completion of the annual financial statements, there was no unauthorised expenditure.

Figures in Rand	2012	2011

42. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure incurred during the year	61,515	44,502
Condoned/Approved by Council	(61,515)	(44,502)
	-	-

In the financial year under review, the municipality incurred interest on overdue accounts of R61,515.27. The accounts are held with ESKOM, the Postmaster, Telkom, Auditor General and Uthukela Water (Pty) Ltd.

During the period under review, council made a resolution to recover any fruitless and wasteful expenditure from the persons responsible thereof.

43. In-kind donations and assistance

Donations		
Nkosi Wedding	15,000	-

The Municipality made a donation of R15 000 to Inkosi's wedding. The donation was made to fund a performance of a dancing group for the wedding.

44. Reconciliation between budget and statement of financial performance

The budget is approved on an accrual basis by nature classification. The approved budget covers the period from 1 July 2011 to 30 June 2012. The budget and accounting basis are the same; both on the accrual basis. The financial statements are prepared using a classification on the nature of expenses in the statement of financial performance.Refer to Appendix E(1):

Net (deficit) surplus per the statement of financial performance	(9,318,168)	2,537,428

45. Additional disclosure in terms of Municipal Finance Management Act

Councillors' arrear consumer accounts

The following former Councillors had arrear accounts outstanding for more than 90 days at 30 June 2012:-

30 June 2012	Outstanding less than 90 days	Outstanding more than 90 days	Total
BC Mabaso	-	12,781	12,781
VC Ntshangase	-	5,189	5,189
	-	**17,970**	**17,970**

30 June 2011	Outstanding less than 90 days	Outstanding more than 90 days	Total
BC Mabaso	9,661	-	9,661
VC Ntshangase	-	5,189	5,189
	9,661	**5,189**	**14,850**

46. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the Council and includes a note to the annual financial statements.

Taxis were procured during the financial year under review for transporting ward committee members and SALGA games participants and the process followed in procuring these services amounting to R22 000 deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to Council who considered them and subsequently condoned the deviation from the normal supply chain management regulations.
WJ Coetzee was appointed for the emergency repair of a damaged electric switch gear fo R11 540 not in line with SCM policy as the situation was deemed to be of an emergency nature.
In September 2011 there was a break in at Technical Services offices and consequently the equipment to the value of R89 521.27 was replaced after having not advertised for the prescribed 7 days by the SCM policy as the whole department had been brought to a standstill .
Arends Contractors was engaged to urgently fix and supply a burst waste pipe at Game Park for R1 032.84
Protection Services uniforms to the value of R3 53.82 were procured from Supplycor who are the sole supplier in the region.
Bell Equipment Sales SA were engaged to repair municipal vehicles for a total of R66 620.45 during the year under review as they are the only specialised dealer for Bell vehicles in the vicinity.
WJ Coetzee Electrical was appointed to repair an electric cable for R132 234.37 without having advertised for 7 days as stipulated by the SCM policy because this was deemed to be an emergency situation with potential damage to residents and business property.
Syntell networks supplied a prepaid vending machine for R11 748.51 not in line with SCM policy as they are the sole supplier for the machine compatible with the existing software at the municipality. The municipality also has a contract in place with Syntell.
GM Menmat was utilised for the services of the Corsa Bakkie for R11 224.09. GM Menmat is the nearest authorised Corsa dealership.
Caseware license was renewed for R33 630 with CQS Holdngs. CQS holdings is the sole supplier of caseware working papers in Africa and a contract is in place with the software provider.
Prepaid envelopes worth R21 168 were procured from Postmaster without following SCM procedures because the Postmaster is the sole supplier of prepaid envelopes.
Fickelect Pty Ltd was engaged to cover an exposed electrical cable for R 3 082.56 without following SCM procedures as this was considered to be a health hazard which endangered the lives of the members of the public.
UAG was approached to repair pneumatic jacks for R4 685 without following the laid down procedures.
Trans-Atlantic equipment supplied equipment worth R3 727.8 without following SCM policy as they are the sole supplier of the protection services equipment.
Starz Towing and Forklift Hire were hired to transport tractors for repairs for R2 500 not in line with SCM policy as they are not registered on the municipal database.
Liz Construction was urgently engaged to fix a burst pipe on municipal property for R1 880.90.
Ermelo Truck and Tractor Centre was utilised for the service of municipal UD trucks deviating from SCM policy as they are the nearest UD dealership.
WJ Coetzee was appointed to make emergency repairs to a blown off transformer for R26 472.51. SCM procedures were not properly followed due to the urgency of the matter.
Neffcon Roadtech was engaged to supply axle mass meters, scuff gauges and play detector for a total of R140 220. The appointment was not in line with SCM policy as the company is the sole supplier of the equipment.
Fickelect Pty Ltd was approached to attend to burst water pipes at the Museum for R7 960 without following SCM procedures as this was an emegency situation.
Imbokodo skills perfomed project management duties for R98 850 following the expiry and extension of contract.The appointment did not follow SCM procedures.
FW Tractors and Truck repairs was engaged to repair a municipal tractor for R27 525.30 without following SCM procedures as they are the nearest Ford tractor authorised dealership.
Royal tents supplied tents to the value of R119 760 based on Bid evaluation recommendation subsequently ratified by bid adjudication.Timeframes did allow the committee to sit on time.
The above mentioned deviations from Supply Chain Policy totalling R796 451.01 were subsequently taken to council for condonement.

47. Risk management

Maximum credit risk exposure
Credit risk consists mainly of cash deposits, cash equivalents, financial asset investments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the municipality. The utilisation of credit limits is regularly monitored.

Financial assets exposed to credit risk at year end are noted under the respective Financial assets - Investments, Trade and other receivables and the Cash and cash equivalents notes.

These balances represent the municipality's maximum exposure to credit risk.

Liquidity risk
The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Interest rate risk
Interest rate risk is the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in market interest rates.

At year end, financial instruments exposed to interest rate risk were as follows:
- Call deposits
- Notice deposits
- Long-term debtors
- Annuity loan

Interest rate sensitivity
The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the municipality's surplus or deficit for year.

	Effect on surplus/(deficit) for the year	
	2% increase	2% decrease
2012		
Financial assets - investments	305,264	-305,264
Annuity loan	-19,993	19,993
Long term debtors	0	-0
2011		
Financial assets - investments	261,264	-261,264
Annuity loan	-20,720	20,720
Long term debtors	3,800	-3,800

Fair value hierarchy
The municipality does not carry any of its financial assets at fair value. The fair value hierarchy disclosure is therefore of no relevance and has not been included.

Figures in Rand	2012	2011

48. Electricity losses

Electricity units (kWh) lost in distribution		
Electricity units (kWh) purchased	13,043,857	11,870,709
Electricity units (kWh) sold	(9,958,489)	(9,301,036)
	3,085,368	**2,569,673**

Electricity losses for the financial year is 24% (2011: 22%).

These losses are attributable to electricity line losses within the electricity network infrastructure.

49. Contributions to organised local government

Council subscriptions	75,769	35,586

50. Forensic Investigation

A forensic investigation was conducted during the currrent regarding some irregularities noted with contracts. At the time of preparing the financial statements the investigation had not been concluded.

51. Non-Compliance with MFMA

The municipality did not submit section 71 reports timeously for the last quarter of the year as required by the MFMA. This was due to the implementation of a new financial system which resulted in teething challenges hence late submission of the prescribed reports. The municipality also failed to pay some of the creditors within 30 days as prescribed by the MFMA.

52. Biological Assets

Emadlangeni Municipality Game Park main purpose is the convervation of a representative system of biodiversity encompassing fauna, flora and unique scnery within the Game Park.Emadlangeni does not Municipality does not manage the Game Park for reproduction of biodiversity and significant sources of revenue comprise of tourism, in the form of accomodation, game viewing and hunting fees. The municipality is involved in bilogical transformation of fauna and flora primarily as a service to the community for the purpose of recreational activity rather than for sale

Biological assets are not recognised in the statement of finacial position as the fair value or cost of the assets cannot be measured reliably due to their nature. Quantities of biological assets cannot easily be ascertained as the municiplity cannot keep up with births, deaths and migrations of wildlife as dictated by seasonal and othe environmental factors. However, the municipality conducts an aerial game count from time to time

As at 30 June 2012 the estimated number of biological assets were as follows: 1 149 Game animals and Cattle

Supplementary Information

Appendix A: Schedule of external loans

Schedule of external loans as at 30 June 2012

	Loan Number	Redeemable	Balance at 30 June 2011 Rand	Received during the period Rand	Redeemed written off during the period Rand	Balance at 30 June 2012 Rand	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
Loan Stock								
Structured loans								
Funding facility								
Development Bank of South Africa								
DBSA Loan	61000120		1,036,002	-	36,341	999,661	-	-
			1,036,002	**-**	**36,341**	**999,661**	**-**	**-**
Bonds								
Other loans								
Lease liability								
Annuity loans								
Government loans								
Total external loans								
Development Bank of South Africa			1,036,002	-	36,341	999,661	-	-
			1,036,002	**-**	**36,341**	**999,661**	**-**	**-**

Emadlangeni Municipality
Appendix E(1)
June 2012

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2012

	Current year 2012 Act. Bal. Rand	Current year 2012 Adjusted budget Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
Revenue					
Property rates	8,901,808	8,169,012	732,796	9.0	
Service charges	10,998,254	9,035,921	1,962,333	21.7	Implementation of the new system which resulted in correction some incorrect billing on the previous financial system
Property rates - penalties imposed and collection charges	1,010,244	230,000	780,244	339.2	Implementation of the new system which allocated property penalties accurately unlike the previous system. The adjusted budget was based on the previous system
Rental of facilities and equipment	1,183,156	1,065,110	118,046	11.1	Included in the budget assumptions is the hire out of plant which did no take place as anticipated.
Fines	115,995	129,950	(13,955)	(10.7)	Erratic functioning of Protection services vehicles which impacted negatively on law enforcement hence fine collection
Licences and permits	740,449	822,797	(82,348)	(10.0)	
Government grants & subsidies	22,906,167	25,562,039	(2,655,872)	(10.4)	The purchase of the new financial system through grants resulted in revenue recognition of conditions met the increase.
Miscellaneous other revenue	332,510	2,067,983	(1,735,473)	(83.9)	Disposal of Municipal houses and vacant land did not take place as anticipated in the period under review.
Fees earned	67,861	-	67,861	-	
Other income 1	101,891	-	101,891	-	Insurance claims on transformer damaged by lightinig
Interest received - investment	658,052	533,277	124,775	23.4	Inability to spend MIG allocation resulted in the increase of interest income as the grant liabilities are cashbacked..
	47,016,387	47,616,089	(599,702)	(1.3)	
Expenses					
Personnel	(14,292,016)	(15,227,571)	935,555	(6.1)	
Remuneration of councillors	(1,471,693)	(1,505,175)	33,482	(2.2)	Full compliment of Councillors not was not always there during the period. One councillor passed away during the year.
Depreciation	(6,223,623)	(2,009,060)	(4,214,563)	209.8	
Amortisation	(43,546)	-	(43,546)	-	
Impairments	(11,251,003)	-	(11,251,003)	-	
Finance costs	(171,691)	(147,802)	(23,889)	16.2	Unanticipated SARS interest payments were made for returs relating to prior periods.
Debt impairment	(5,306,044)	(1,066,717)	(4,239,327)	397.4	Full Implementation of GRAP 104 resulted in the high impairment charge.This is high impairment charge is attributed to the high level of indigent households and
Repairs and maintenance - General	(878,991)	(1,635,801)	756,810	(46.3)	Aging of the municipality's assets is resulting in high maintenance costs
Bulk purchases	(9,268,294)	(8,479,233)	(789,061)	9.3	
Grants and subsidies paid	(2,718,036)	(6,560,000)	3,841,964	(58.6)	MIG expenditure did not take place as budgeted for due to numerous challenges faced with MIG projects during the year under review resulting in significant under expenditure.
General Expenses	(4,699,249)	(8,498,615)	3,799,366	(44.7)	The budgeted unbundling of infrastructure assets commenced late and only expected to be finalised in the new financial year.Efforts were also made to lower down the costs.
	(56,324,186)	(45,129,974)	(11,194,212)	24.8	
Other revenue and costs					
Gain or loss on disposal of assets and liabilities	(10,363)	-	(10,363)	-	
	(10,363)	-	(10,363)	-	
Net surplus/ (deficit) for the year	(9,318,162)	2,486,115	(11,804,277)	(474.8)	

Emadlangeni Municipality
Appendix E(2)
June 2012

Budget Analysis of Capital Expenditure as at 30 June 2012

	Additions Rand	Revised Budget Rand	Variance Rand	Variance %	Explanation of significant variances from budget
Municipality					
Buildings	729,113	78,600	(650,513)	**(828)**	MIG capital expenditure rolled over from the previous year ie Fencing of ELM Phase 4.
Plant and Machinery	5,000	269,318	264,318	**98**	Tools and equiment budgeted for the Game Park not purcahsed during the period under review.The absence of a full time Game Park manager on the ground can be attributed to the variance.
Furniture and Fixtures	8,632	263,140	254,508	**97**	Additional desks and office furniture for instance boardroom was not purchased in June as budgeted for.
Motor Vehicles	745,029	1,381,500	636,471	**46**	Only the mayoral utility vehicle and other 2 more vehicle were purchased not in line with the budget four vehicles.
Office Equipment	375,932	175,000	(200,932)	**(115)**	Protection services testing equipment was purchased in early July 2012 not as anticipated.
Infrastructure	₄,581,248	),514,737	ᵹ,933,489	**56**	Numerous challenges faced with the MIG projects which resulted in under expenditure as anticipated..
Community Assets	1,353,139	-	1,353,139)	**-**	Grant funded-MIG
Sport and Recreation	-	-	-	**-**	
Environmental Protection/Pollution Control	-	-	-	**-**	
Waste Water Management/Sewerage	-	-	-	**-**	
Road Transport/Roads	-	-	-	**-**	
Water/Water Distribution	-	-	-	**-**	
Electricity /Electricity Distribution	-	-	-	**-**	
Other/Air Transport	-	-	-	**-**	
	-	-	-	**-**	
	-	-	-	**-**	
	-	-	-	**-**	
	7,798,093	**2,682,295**	**4,884,202**	**39**	
Municipal Owned Entities	**-**	**-**	**-**	**-**	
Other charges	**-**	**-**	**-**	**-**	